

Public Education Funding Issues for the 2009 Session

Senate Finance Committee
October 16, 2008

Overview

- Direct Aid to Localities for Public Education is the single largest General Fund expenditure
- Factors affecting growth since FY 1998
- Components of Direct Aid
 - SOQ
 - Other: Categorical, Lottery-Funded, Incentive, School Facilities, and Supplemental
- 2009 Session budget outlook

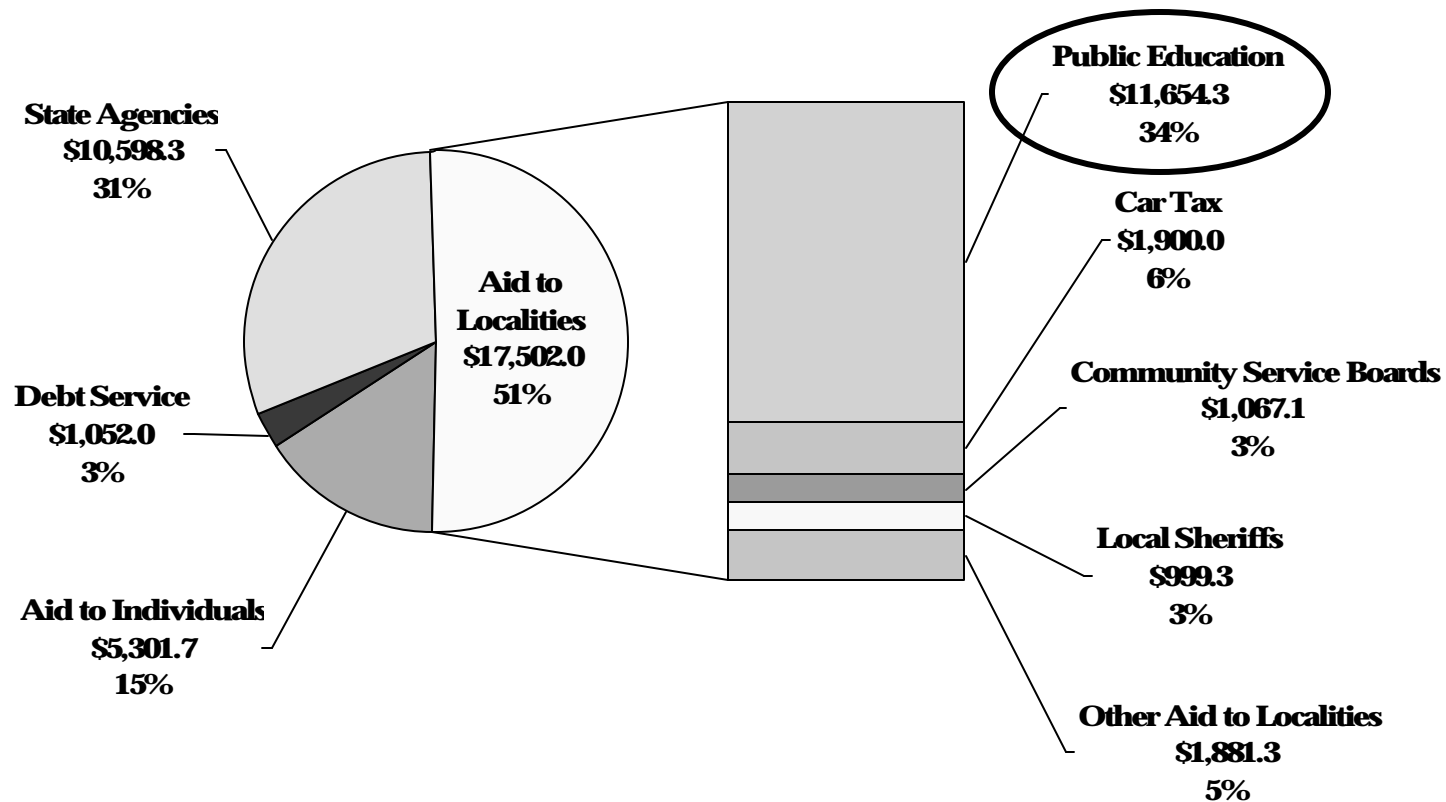
Aid to Public Education: Over 1/3 of State's GF Budget

Roughly the same % of GF in FY 10 as in FY 98

2008-2010 GF Operating Budget = \$34,454.0

Chapter 879

(\$ in millions)

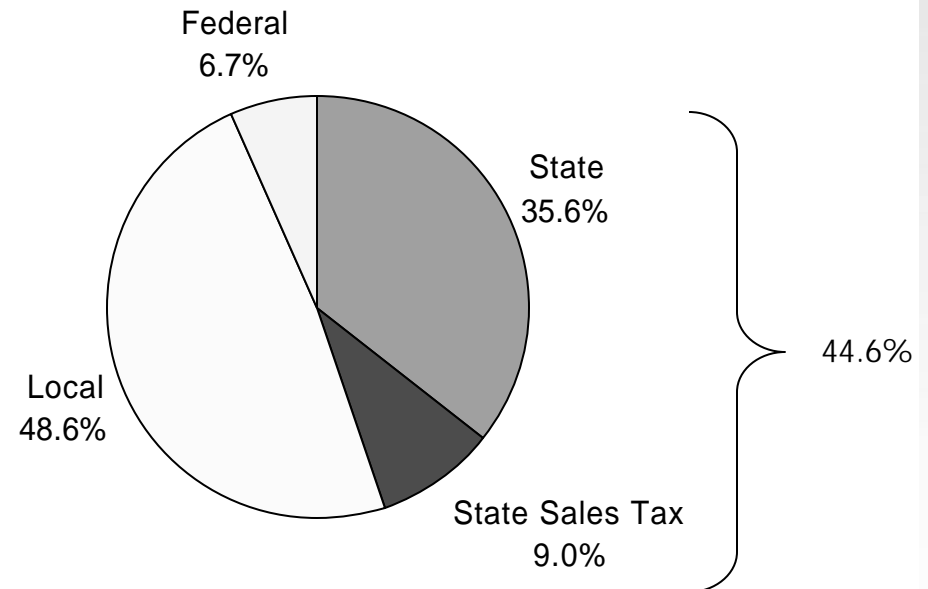
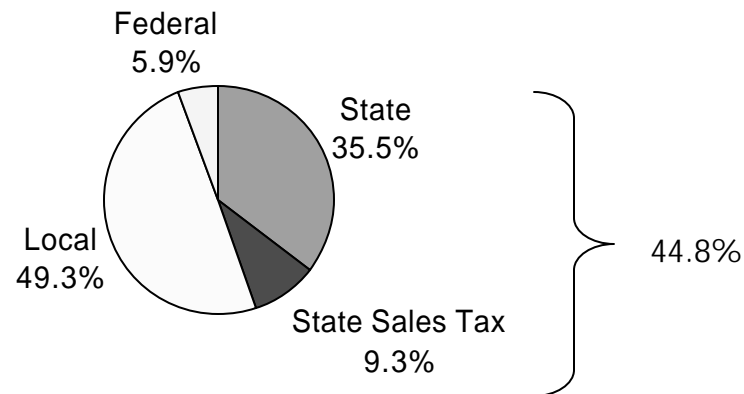


Growth Has Occurred in All Fund Sources

Locals still paying largest share of education costs

FY 2007 = \$12.6 billion

FY 1998 = \$6.8 billion



Factors Affecting Growth in Education Spending

Higher standards, other policy choices, and re-benchmarking

- The educational context over the last decade included more rigorous state standards and assessments along with a school accreditation system, an increase in graduation requirements, and increased accountability through No Child Left Behind (NCLB).
- Major policy choices included:
 - **1998 Session:** Creation of a school construction grants program (initially \$55 million per year),
 - **1999 Session:** Specific dedication of the Lottery proceeds to public education (\$322 million in FY99, with about 60% funding Basic Aid), and
 - **2002 Session:** Several programs were reduced or eliminated in response to budget pressures and in order to redirect funding to JLARC Tier 1 options (local revenue deduct and restoring dropped admin. positions):
 - Additional Teachers, Maintenance Supplement, SOL Teacher Training, SOL Materials, Truancy, School Community Health, and others (totaling \$167 million in the 2002 Session).

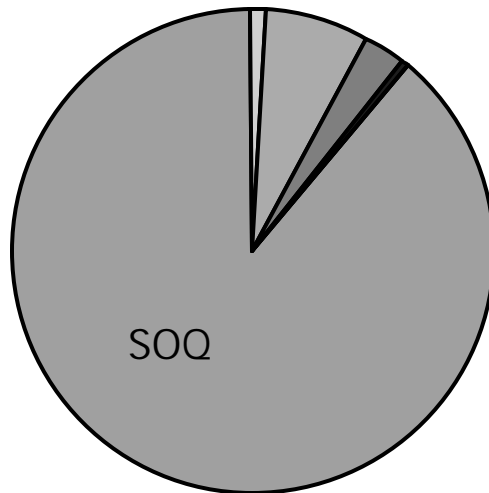
Factors Affecting Growth in Education Spending

- Major policy choices included (continued):
 - **2004 Session included:**
 - **SOQ revisions:** Technology positions (\$16 million, FY06); elementary resource teachers (\$76 million, FY06); secondary planning period (\$129 million); prevention, intervention, and remediation (\$21 million, from Lottery revenues FY 06) (*See Appendix for SOQ staffing standards.*)
 - **Expansion of the Virginia Preschool Initiative for At-Risk Four-Year-Olds** (\$30 million, FY 06), and
 - **¼ cent sales tax directed to Public Education:**
 - With 1/8 cent (\$105 million, FY 06) added to the existing 1 cent distributed based on census of school-aged population and
 - The other 1/8 cent towards SOQ revisions in order to help relieve pressure on local real property taxes.
- Biennial re-benchmarking costs increased, especially beginning with the 2004-06 biennium (over \$1 billion per biennium) due to a combination of factors including:
 - Increasing enrollment, health insurance costs, retirement system contribution rates, and growth in teacher salaries and other local expenditures.

Components of State Direct Aid

SOQ funding accounts for about 89% of Direct Aid

FY 2010 (Ch. 879, 2008)
(\$ in millions)



SOQ	\$5,750.8
Categorical	\$68.6
Lottery-Funded	\$461.0
Incentive	\$179.9
School Facilities	\$27.5
Supplemental	\$6.6

Components of State Direct Aid

Glossary

- For budgeting purposes, Direct Aid funding is categorized as one of the following:
 - **SOQ** - State's share of instructional costs based on required number of positions and salaries and benefits funded, plus support costs
 - Basic Aid, Sales Tax, and other components
 - **Categorical** - Targeted to particular student population needs and mandated by state or federal requirements
 - 2/3 is Special Education
 - **Lottery-Funded** – Generally funds voluntary programs, available to any school division that qualifies and agrees to requirements
 - **Reflects 2008 Session actions:** After 10 programs are funded, balance of Lottery proceeds is distributed on a per pupil basis for "Additional Support for School Construction and Operation Costs" (\$151 million in FY10)
 - **Incentive** - Voluntary on the part of school divisions, but in order to receive the state funds must agree to meet certain requirements
 - Includes Compensation Supplement
 - **School Facilities** - School construction grants program
 - **Supplemental** - Additional assistance in support of education, either to teachers or through other organizations
 - 2/3 is for National Board Certification awards and Teaching Scholarships
- *See Appendix for complete list of Direct Aid programs.*

2009 Session Budget Outlook

- The Governor's October 9, 2008 Reduction Plan for FY 2009 did not include any reductions to Direct Aid appropriations, with the exception of the technical adjustment due to the reduced sales tax forecast (\$21 million). However, the plan:
 - Captured \$51 million in Literary Fund balances
 - Reflected DOE Central Office reductions of 15 percent, after excluding the cost of the SOL testing:
 - Elimination of 23 positions, including 11 layoffs
 - \$1.4 million by supplanting GF with federal funds
- Given Virginia's current revenue situation, in order to balance the remainder of 2008-10 biennial budget it is likely that reductions in Direct Aid appropriations in FY 10 will be considered.
- The magnitude of any impact on Public Education is not known at this time because it is not known how reductions would be allocated among different areas of the budget.

Current Budget Reflects +\$200 Million for FY 10

A 3.3% increase over FY 09

	(\$ in millions)	Increase, Annual Basis	
FY 2008	\$5,767.5 GF (includes \$459.0 Lottery) Ch. 847, 2008		
FY 2009	\$5,723.8 GF + plus \$461.0 Lottery = \$6,184.8 Ch. 879, 2008	\$417.3	7.2%
FY 2010	\$5,930.5 GF + plus \$461.0 Lottery = \$6,391.5 Ch. 879, 2008	\$206.7	3.3%

- There were few new initiatives funded in FY 10. New money in FY 10 includes:
 - About \$65 million more in re-benchmarking costs than in FY 09
 - Enrollment and sales tax
 - About \$78 million for the state's share of a 2.0% salary increase (effective July 1, 2009)
 - About \$8 million more for the Virginia Preschool Initiative than in FY 09 to cap the local share at 50%

What Types of Options Might be Considered?

Allow flexibility by reducing minimum required staffing levels, scaling back or eliminating programs

- Requires cost-benefit analysis/prioritization of base budget, but doesn't address overall adequacy
- Provides possibility of local budget savings; may want to phase-in
- Equity concerns - some localities can/will continue services, others will not
- *Example: Increasing the maximum school-wide pupil-teacher ratio (grades 5 through 12) from 21-1 to 22-1 would result in state SOQ Basic Aid savings of nearly \$50 million per year.*

Improve cost methodology to more fairly represent actual cost of the component

- Changes are within the purview of the G.A.
 - It has been generally accepted that SOQ cost estimates must be realistic with relation to current costs for education; and not be arbitrary figures bearing no reasonable relationship to the actual expense of education prevailing in the Commonwealth
- *Example: Funding the state's share of the prevailing health insurance premium (\$5,211 for 2008-10 averaging employer, employer plus one, and family coverage) to more accurately reflect the percentage of teachers that actually participate (approximately 75% statewide, FY 06) could result in state savings of \$60 - \$90 million per year.*

What Types of Options Might be Considered?

(continued)

Reduce state's share (down from 55%, on average)

- Policy choice of the G.A.
- Phased up from 50% to 55% FY 1988 through FY 1993 as an offset to equalizing certain benefits costs that had been entirely state funded
- *Example:* Returning to a 50-50 split would result in a state savings of about \$330 million in FY 10.

Find additional efficiencies in delivery of services

- May require a longer time horizon to develop/achieve
- May result in better outcomes/more dollars in the classroom, but be harder to quantify budgetary and societal savings
- Balancing best practices against one-size-fits-all approaches
- *Example:* Using an existing data source for the Triennial Census may not result in direct state savings, but could save localities millions in data collection costs
- *Example:* Continue/expand school efficiency review program
- *Example:* Explore use of technology/dual enrollment to reduce costs

Summary

- Direct Aid to Localities for Public Education is the single largest General Fund expenditure.
 - Has remained roughly the same percentage of the GF in FY 10 as in FY 98.
 - Growth has occurred in all fund sources; locals still paying the largest share.
- Factors affecting the growth since FY 98 include the context of higher standards, policy choices, and increasing enrollments and costs.
- SOQ accounts for about 89% of Direct Aid, with Categorical, Lottery-Funded, Incentive, School Facilities, and Supplemental programs making up the remainder.
- Given the current revenue situation, it is likely that reductions in Direct Aid appropriations will be considered in FY 10, which reflects an increase of about \$200 million over FY 09 (Ch. 879).
 - Options may include allowing flexibility by reducing minimum staffing levels or scaling back programs, making improvements to the cost methodology, reducing the state's share, and/or finding additional efficiencies in the delivery of services.
- The Joint Subcommittee on Elementary and Secondary Education Funding has begun to consider options for managing the current revenue situation, but questions around longer-term education policy objectives remain.

Appendix A – Current SOQ Staffing Standards

Grade	Standards of Quality Class Sizes/Ratios				Standards of Quality School-level Staffing														
	Maximum Class Size	School-wide Pupil-Teacher Ratio	Division-wide Pupil-Teacher Ratio	Division-wide English Pupil-Teacher Ratio	Resource* Teacher	ESL Teacher	Technology: Teacher	Technology: Support	Guidance Counselors	Librarians	Assistant Principal	Principal							
K	24 29 w/ aide		24 to 1		0.20 per 40 students (1,000 to 5)				ELEMENTARY SCHOOL POSITIONS										
1	30								0.20 per 100 students (500 to 1)	> 300 students = 0.50 300 or more = 1.0	> 600 students = 0.0 600 to 899 = 0.50 900 or more = 1.0	> 300 students = 0.50 300 or more = 1.0							
2	30																		
3	30																		
4	35																		
5	35		25 to 1		1 per 58 students (1,000 to 17)	0.25 per 250 students (1,000 to 1)	0.25 per 250 students (1,000 to 1)	MIDDLE SCHOOL POSITIONS											
6	35							0.20 per 80 students (400 to 1)	> 300 students = 0.50 300 to 999 = 1.0 1,000 or more = 2.0	> 600 students = 0.0 1.0 per 600	1.0								
7	35																		
8	21 to 1											24 to 1					HIGH SCHOOL POSITIONS		
9																			
10																			
11																			
12																			
									0.20 per 70 students (350 to 1)	> 300 students = 0.50 300 to 999 = 1.0 1,000 or more = 2.0	> 600 students = 0.0 1.0 per 600	1.0							

* Resource teachers include art, music and physical education positions

Appendix B – Components of Direct Aid

Standards of Quality

(\$ in millions)	FY 2010 Ch. 879, 2008
Basic Aid (and VRS Retirement, Social Security, and Group Life)	\$3,830.3
Sales Tax	1,255.2
Textbooks	80.0
Special Education	374.4
Prevention, Intervention, and Remediation	69.5
Career & Technical Education	67.1
English as a Second Language	43.3
Gifted	31.1
TOTAL	\$5,750.8

Appendix B – Components of Direct Aid

Categorical Programs

(\$ in millions)	FY 2010 Ch. 879, 2008
Special Education – State Operated Programs	\$37.2
Special Education – Homebound	6.3
Special Education – Jails	3.0
Subtotal, Special Education	\$46.5
Adult Literacy	2.7
Adult Education	1.1
Subtotal, Adult	\$3.8
Vocational Education	10.4
School Lunch (School Breakfast is an optional Lottery-funded program)	5.8
Electronic Classroom (Virtual Advanced Placement)	2.3
American Indian Treaty Commitment	0.1
TOTAL	\$68.6

Appendix B – Components of Direct Aid

Lottery-Funded

(\$ in millions)	FY 2010 Ch. 879, 2008
K-3 Primary Class Size Reduction	\$92.2
Virginia Preschool Initiative for At-Risk Four-Year-Olds	68.1
At-Risk	66.6
Remedial Summer School	30.1
Early Intervention Reading	17.1
Foster Care	12.6
Enrollment Loss	11.1
SOL Algebra Readiness	9.0
School Breakfast (School Lunch is under Categorical due to MOE requirement)	2.0
Mentor Teacher	1.0
<i>Additional Support for School Construction and Operation Costs</i>	<i>151.3</i>
TOTAL	\$461.0

Appendix B – Components of Direct Aid

Incentive Programs and School Facilities

(\$ in millions)	FY 2010 Ch. 879, 2008
Special Education – Regional Tuition, In-service, Vocational Education	\$69.8
Governor's Schools	14.5
Alternative Education	7.0
No Child Left Behind/Education for a Lifetime	4.7
Project Graduation	2.8
ISAEP (GED)	2.2
Supplemental Basic Aid	0.6
Clinical Faculty	0.4
Career Switcher Mentoring Grants	0.3
Subtotal, not including Compensation Supplement	\$102.3
Compensation Supplement	77.6
TOTAL	\$179.9
School Facilities: School Construction Grants	\$27.5

Appendix B – Components of Direct Aid *Supplemental Programs*

	FY 2010 Ch. 879, 2008
National Board Certification Awards	\$3,457,500
Virginia Teaching Scholarship Loan Program	708,000
Subtotal, Teachers	\$4,165,550
Project Discovery	900,000
Jobs for Virginia Graduates	500,000
Career & Technical Education Resource Center	400,000
Southwest Virginia Public Education Consortium, including Van Gogh Outreach Program	297,750
Small School Division Assistance	200,000
Southside Virginia Regional Technology Consortium	95,000
Virginia Career Education Foundation	50,000
TOTAL	\$6,608,250

Appendix C

Enrollment Loss Funding

- Established during the 1980-82 biennium
 - Partial per pupil funding is provided for year over year enrollment loss based on the sliding scale to the right
- FY10 Appropriation = \$11.1 M
- Beginning with the 2008 Session, Lottery-funded
- 62 divisions projected to have FY 09 to FY 10 enrollment loss
 - Newport News, Virginia Beach, and Norfolk each receive over \$1 million in Enrollment Loss assistance

Composite Index	
≤ 0.1999	85%
.2000-.3499	70%
.3500-.4999	45%
$\geq .5000$	30%